

PUBLIC DISCLOSURE

MAY 19, 2003

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

EMBECO CREDIT UNION

443 SHAKER ROAD
EAST LONGMEADOW, MASSACHUSETTS 01028

DIVISION OF BANKS
ONE SOUTH STATION
BOSTON, MA 02110

NOTE:	This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the Division of Banks concerning the safety and soundness of this financial institution.
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GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires the Division of Banks (Division) to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting the needs of its entire local community, including low and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the Division must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

This document is an evaluation of the Community Reinvestment Act (CRA) performance of **EMBECO CREDIT UNION** prepared by the Massachusetts Division of Banks, the institution's supervisory agency.

INSTITUTION'S CRA RATING: This institution is rated "Satisfactory"

A CRA rating of "Satisfactory" is assigned. An institution in this group has a satisfactory record of ascertaining and helping to meet the credit needs of its membership, including low and moderate-income members, in a manner consistent with its resources and capabilities.

Embeco Credit Union was evaluated for Community Reinvestment under the CRA Small Institution Examination procedures. Since Embeco Credit Union is an industrial credit union, which identifies its membership as its assessment area. two geographic performance factors were not considered.

This examination was conducted utilizing three performance criteria for industrial institutions: 1) Average Loan to Deposit ratio, 2) Lending to Borrowers of Different Incomes and 3) Fair Lending.

The credit union's average net loan-to-share ratio for the previous four semi-annual periods is 25.7 percent and meets the standards for satisfactory performance at this time.

An analysis of the credit union's lending activity by borrower income revealed that 83.3 percent of a consumer loan sample was granted to low and moderate-income members. This criterion was found to meet the standards for satisfactory performance.

The credit union's fair lending performance is also considered to meet the standards of satisfactory performance.

When determining the overall rating, factors including the credit union's size, resources and staff limitations were considered.

PERFORMANCE CONTEXT

Description of Institution

EMBECO Credit Union is a small industrial credit union, which was incorporated on September 17, 1954. The credit union was established to serve the credit needs of the employees of Hasbro Games (formerly known as the Milton Bradley Company). The credit union's sole office is located within Hasbro Games' manufacturing and office facility in East Longmeadow, Massachusetts. The credit union offers only regular share accounts with a \$25.00 deposit required as a membership share. Office hours are Monday through Friday, 11:00 a.m. to 12:30 p.m. and 2:00 p.m. to 3:30 p.m. Also, the credit union is open early, Tuesday and Thursday, 6:45 a.m. to 7:30 a.m.

As of December 31, 2002, the institution's total assets were \$6.4 million with total loans representing \$1.1 million or 17.2 percent of total assets. The following table depicts the credit union's loan portfolio composition based on the December 31, 2002 NCUA Call Report of Condition.

LOAN PORTFOLIO COMPOSITION		
LOAN TYPE	\$(000)	%
New Vehicle	464	42.0
Used Vehicle	299	27.0
Personal Loans	307	27.7
Share Secured	37	3.3
TOTALS	1,107	100%

New and used vehicle loans comprise the majority or 69.0 percent of the entire loan portfolio, while personal loans represent 27.7 percent. Share secured loans make up the remainder of the portfolio representing only 3.3 percent of the dollar volume of loans outstanding.

Members are provided with direct deposit for payroll and automatic payroll deductions for loan payments.

Competition within the credit union's assessment area includes a variety of industrial credit unions, small loan companies, and community banks. Given its asset size and financial capacity, Embeco Credit Union has adequately helped to meet the credit needs of its assessment area/ membership.

The Division of Banks last conducted a CRA examination on October 27, 1998, which resulted in the Embeco Credit Union receiving a "Satisfactory" CRA rating.

Description of Assessment Area

The Community Reinvestment Act (CRA) regulation requires that each financial institution delineate one or more assessment area(s) within which the institution's record of helping to meet community credit needs is evaluated. Under the Massachusetts CRA Regulation 209 CMR 46.41(8) a credit union whose membership by-law provisions are not based on residence may delineate its membership as its assessment area. Embeco Credit Union, which is an industrial credit union, has a membership by-law provision based primarily on employment/occupation. Consequently for the purpose of this evaluation, the credit union's by-laws delineate its membership as the institution's assessment area.

Embeco Credit Union's by-laws state: Membership in this credit union is limited to employees and retirees of Hasbro Games (formerly known as the Milton Bradley Company) who maintain their membership in the credit union at the time of, and subsequent to, their retirement. Employees of domestic companies with which Hasbro Games is affiliated may also become members of the credit union. Organizations and clubs (Union Local, Athletic Association, etc.) associated with Hasbro Games may also become members if so approved by the Board of Directors.

Embeco Credit Union currently has 1,300 members.

PERFORMANCE CRITERIA

1. LOAN TO DEPOSIT (SHARE) ANALYSIS

The first criterion evaluates the credit union's net loan to total deposit (share) ratio. The average net loan to total share ratio was determined to be 25.7 percent and is considered to meet the standards for satisfactory performance.

A comparative analysis of Embeco Credit Union's net loan-to-shares for the period June 30, 2001 through December 31, 2002 was conducted during this examination. The analysis incorporated net loans to total share figures from the institution's NCUA Call Report of Condition. Refer to the table below.

Embeco Credit Union Loan to Shares Analysis \$(000)			
Period	Net Loans	Shares	Ratio
June 2001	1,474	4,773	30.9
December 2001	1,329	4,747	28.0
June 2002	1,212	5,064	23.9
December 2002	1,082	5,409	20.0

As the above table indicates, the credit union's loan to share ratios are relatively low and have decreased during the current examination period. Management attributes this decreasing trend to the low interest rates that have resulted in mortgage refinancing. This refinance has allowed members to pay off their consumer debts with the credit union resulting in a reduced loan portfolio. Also, local auto dealerships offer zero percent financing making it even difficult for the credit union to compete. The corporation has reduced its workforce and the demographics of the member base reflects a substantial number of older employees who tend to save more and borrow less, thus leading to the significant high share balances. Management has made revisions to its lending policy to increase lending activity.

The following table provides net loans to share ratios for selected industrial credit unions with similar asset sizes. The ratios shown are calculated from NCUA Call report figures as of December 31, 2002. These credit unions all have asset sizes of \$6 million each. The credit union's ratio of 20 percent is not comparable to other institutions mentioned. However, management has taken steps to increase lending activity.

Comparative Loan to Share Ratios	
Embeco Credit Union	20.0%
Plan Credit Union	50.4%
First Choice Credit Union	62.0%

Based on the above information and Embeco Credit Union's capacity to lend, its asset size, the types of loans available, its limited resources and lending strategy, the credit union's loan to share ratio meets the standards for satisfactory performance.

2. DISTRIBUTION OF CREDIT AMONG DIFFERENT INCOME LEVELS

The second performance criterion evaluates the extent to which the institution lends to members of different income levels, particularly members of low and moderate income within its membership. An analysis of consumer loans extended to the credit union's membership of various income levels was conducted. Information from the NCUA call reports of condition indicated the credit union originated 265 loans totaling \$995,586 in 2001, 229 loans totaling \$913,079 in 2002, and 70 loans totaling \$293,685 for YTD May 19, 2003. A sample of 66 loans totaling \$225,000 was taken from years 2001, 2002 and 2003 combined. This sample was evaluated for income of the applicant.

The distribution of consumer loan originations were reviewed and compared to the median Family Household Income (FHI) for the Metropolitan Statistical Area (MSA) in which the members reside to determine borrower income levels. Low income is defined as income below 50 percent of median income, moderate-income is income between 50 percent and 79 percent of median income, middle-income is income between 80 and 119 percent of median income and upper-income is income at 120 percent or more of median income.

Originations were categorized by the ratio of the applicant's reported incomes to the 2001, 2002 and year-to-date 2003 Massachusetts Statistical Area (MSA) incomes. According to management, the majority of the credit union's membership resides within the Springfield area. Therefore, for examination purposes, the Springfield MSA median family incomes were used for this analysis. The median family income for the Springfield MSA was \$49,700 for 2001, \$50,700 for 2002 and \$56,800 for 2003. Income figures were based on estimated 2001, 2002 and 2003 data from the Department of Housing and Urban Development (HUD).

The following table provides a breakdown of a sample of 66 consumer loans originated among the credit union's membership by applicant income level. This analysis indicated that 13.6 percent of the loans was granted to low-income members and the majority representing 69.7 percent was granted to moderate-income members.

Consumer Loan Originations by Income of Borrower by Number

% OF MEDIAN MSA INCOME	2001		2002		Y-T-D 2003		TOTAL	
	#	%	#	%	#	%	#	%
<50%	1	4.0	4	16.0	4	25.0	9	13.6
50% - 79%	18	72.0	18	72.0	10	62.5	46	69.7
80% - 119%	3	12.0	0	0.0	2	12.5	5	7.6
120% >	3	12.0	3	12.0	0	0.0	6	9.1
TOTAL	25	100%	25	100%	16	100%	66	100%

Source: in-house files

The information included in the table below indicates that, by dollar amount, 8.0 percent of the consumer loans were to low-income members and the majority representing 57.8 percent were to moderate-income members.

Consumer Loan Originations by Income of Borrower by Dollar Amount

% OF MEDIAN MSA INCOME	2001		2002		Y-T-D 2003		TOTAL	
	\$(000)	%	\$(000)	%	\$(000)	%	\$(000)	%
<50%	1	1.7	6	7.5	11	13.4	18	8.0
50% - 79%	47	74.6	40	50.0	43	52.5	130	57.8
80% - 119%	6	9.5	0	0.0	28	34.1	34	15.1
120% >	9	14.2	34	42.5	0	0.0	43	19.1
TOTAL	63	100%	80	100%	82	100%	225	100%

Source: in-house files

The credit union's loans are dispersed in all categories of income levels of its membership, but are primarily concentrated in moderate-income categories. It should be noted that the majority of the consumer loans were granted to single applicants; however, income is compared to median family income. This may have the effect of somewhat overstating the distribution in the low and moderate-income categories.

In conclusion, the credit union's distribution of the consumer loan sample by borrower income levels demonstrates that the majority of these loans are granted to moderate-income members. This distribution is good, given the income levels of the majority of the membership. Consequently, the credit union's lending for this criterion meets the standards for satisfactory performance.

3. REVIEW OF COMPLAINTS/FAIR LENDING POLICIES AND PRACTICES

A review of the public comment file revealed that the bank received no complaints pertaining to the institution's CRA performance since the previous examination.

The credit union's small size, restricted resources and financial situation limit its ability to meet the requirements of the Division's fair lending policy. The credit union's staff training is adequate. The institution has developed a second review process in which all loans considered for denial are referred to the Credit Committee prior to issuing a notice of denial.

The credit union's marketing activity includes placing information on its credit products and services on a bulletin board located in the credit union's lobby. The credit union also includes statement stuffers in correspondence sent out to the membership and there are brochures located in the credit union's lobby. The credit union also considers those members who are no longer current employees of Hasbro Games by sending them information included on bulletin boards that aren't included in the regular statement mailings to the general membership.

The criterion for the various types of credit offered, as well as the procedures for completing a loan application were reviewed during the examination. No practices intended to discourage applications were found.

Based on the foregoing information, the credit union meets the standards for satisfactory performance in this category.

THE COMMONWEALTH OF MASSACHUSETTS

To the COMMISSIONER OF BANKS:

THIS IS TO CERTIFY, that the report of examination of the

EMBECO CREDIT UNIION

for compliance with applicable consumer and fair lending rules and regulations and the Community Reinvestment Act (CRA), as of the close of business **MAY 19, 2003**, has been read to or by the undersigned and the matters referred to therein will have our immediate attention.

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A majority of the Board of Directors/Trustees

Dated at _____ this _____ day of _____ 20 ____

PERFORMANCE EVALUATION DISCLOSURE GUIDE

Massachusetts General Laws Chapter 167, Section 14, as amended, and the Uniform Interagency Community Reinvestment Act (CRA) Guidelines for Disclosure of Written Evaluations require all financial institutions to take the following actions within 30 business days of receipt of the CRA evaluation of their institution:

- 1) Make its most current CRA performance evaluation available to the public;
- 2)
- 2) At a minimum, place the evaluation in the institution's CRA public file located at the head office and at a designated office in each assessment area;
- 3) Add the following language to the institution's required CRA public notice that is posted in each depository facility:

"You may obtain the public section of our most recent CRA Performance Evaluation, which was prepared by the Massachusetts Division of Banks, at (Address at main office)."

[Please Note: If the institution has more than one assessment area, each office (other than off-premises electronic deposit facilities) in that assessment area shall also include the address of the designated office for that assessment area.]

- 4) Provide a copy of its current evaluation to the public, upon request. In connection with this, the institution is authorized to charge a fee, which does not exceed the cost of reproduction and mailing (if applicable).

The format and content of the institution's evaluation, as prepared by its supervisory agency may not be altered or abridged in any manner. The institution is encouraged to include its response to the evaluation in its CRA public file.